

BUSINESS STRATEGY FORMULATION FOR MULTI MAKMUR MANDIRI

Harry Budiman and Evo S. Hariandja
School of Business and Management
Institut Teknologi Bandung, Indonesia
harry.budiman@mail.sbm-itb.ac.id

Abstract - Multi Makmur Mandiri is a company dealing in construction material trading and located in Garut Regency, West Java Province, Indonesia. As of recent years, Multi Makmur Mandiri faced with requirement of management regeneration. In order to facilitate it Multi Makmur Mandiri changes its business entity status from sole proprietorship to limited partnership company in 2012. These two changes required the company to restructure its organization and readjust its business strategy in order to maintain and improve its competitive advantage. The process of formulating business strategy may be divided into three main phases; strategic analysis, strategic analysis output and strategy identification, selection and implementation. During strategic analysis, external analysis and internal analysis in order to provide output which will be to identify opportunities, threats, strengths and weaknesses. These 4 elements would then be used to identify business strategy alternatives which would be selected based on predetermined criteria. The result of selection process would end as proposed business strategies and its implementation plan. This paper's objective is to provide business strategies suitable with Multi Makmur Mandiri's situation. These proposed business strategies are expected to help Multi Makmur Mandiri to maintain and improve its competitive advantage. The result of this strategy formulation is: a). Value proposition based on product line breadth; b). Organization structure building; c). Implementation of integrated information system.

Keyword: strategic market management, business strategy, formulation, construction material, building material.

1. Introduction

Building materials are any material which is used for construction purposes. Many naturally occurring substances, such as clay, rocks, sand, and wood have been used to construct buildings. Apart from naturally occurring materials, many man-made products are in use with varying degree of synthetic level such as cement, glass, paint and metal. The manufacture of building materials is an established industry and the use of these materials is may be segmented into more specific specialty.

There are two factors which influence building's viability as business field:

- The development of private property ownership idea
- Building main function as shelter which fulfills one of the basic human needs

A business which deals in buying, selling or renting land, buildings or housing may be referred as real estate or property business. In order to function properly a property business requires supporting functions or businesses and one of business fields that's capable of fulfilling it is construction material business. Multi Makmur Mandiri is a company dealing in the trade of construction material and located in Garut Regency, West Java Province, Indonesia. Multi Makmur Mandiri's main business issue is:

- Requirement to regenerate management
- Business entity status change from sole proprietorship to limited partnership company

These two changes required the company to restructure and readjust its strategy in order to maintain and improve its competitive advantage. This paper's objective is to provide proposed business strategies suitable with Multi Makmur Mandiri's situation.

2. Business Issue Exploration

A. Conceptual Framework

Strategic market management is a system designed to help management both precipitate and make strategic decisions as well as create strategic visions. A strategic decision involves the creation, change, or retention of a strategy. An important role of the system is to precipitate as well as make strategic decisions. The identification of the need for a strategic response is frequently a critical step. Furthermore, the role of strategic market management is not limited to selecting from among decision alternatives, but it also includes the identification of said alternatives as well. Much of the analysis conducted in this final project is therefore concerned with identifying alternatives.

Figure below, modified from David A. Aaker (2009)'s *Strategic Market Management*, shows an overview of the external analysis and internal analysis that provide the input to strategy development and the set of strategic decisions that is the ultimate output.

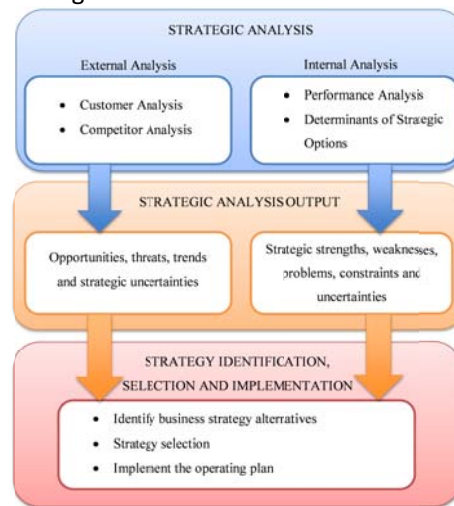


Figure 1-Strategic Market Management Overview

B. Strategic Analysis

Strategic analysis can be categorized into external and internal analysis.

1. External Analysis

External analysis involves an examination of relevant external elements to an organization. External analysis is divided into four components: customer analysis, competitor analysis, market analysis and environment analysis. For the purpose of this journal, only customer analysis and competitor analysis will be used.

a. Customer Analysis

Customer analysis involves identifying the organization's customer segments, each segment's motivations and unmet needs.

Table 1. Customer Segmentation

| Segment | Characteristics |
|----------------|--|
| End User (B2C) | -Lower transaction volume, higher profit margin. -Sporadic transaction pattern. -Less pricing sensitivity. -Higher product variation per transaction. |
| Business (B2B) | -Higher transaction volume, lower profit margin. -Periodic transaction pattern -More pricing sensitivity. -Lower product variation per transaction. |

Table 2. Customer Motivation

| Segment | Motivation |
|----------------|---|
| End User (B2C) | Motivation is focused more on product variation. |
| Business (B2B) | Motivation is focused more on competitive price and payment option flexibility. |

Based on general construction requirement, Multi Makmur Mandiri has not provided products such as unprocessed wood, sand / pebble and brick.

b. Competitor Analysis

Competitor analysis starts with the identification of competitors. The next step is to understand each competitor's characteristics in order to determine their strengths and weakness. Competitor identification is based on existing company with similar level of size and innovativeness.

Table 3. Competitor Identification

| Segment | Competitor |
|----------------|------------------------|
| End User (B2C) | -Lancar Terus |
| Business (B2B) | -Panca Logam -Utama |

Competitors' strategic movement shows shift from B2B market segment which is shown by Panca Logam's expansion, Utama's extension and Lancar Terus' complete shift. Competitor's positioning is determined via product variety and cost structure parameter. Product is categorized into 7; cement, rebar, wood, sanitary, glass, ceramic tile and paint.

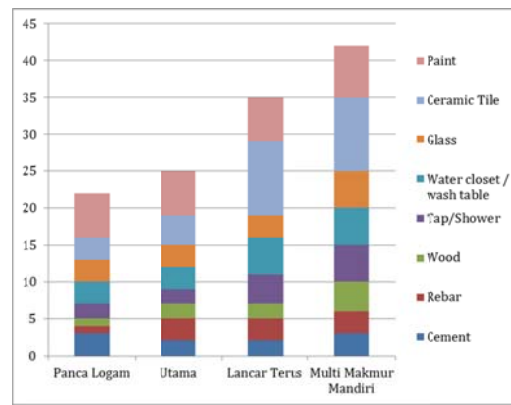


Figure 2-Product Variety Comparisons

Cost structure is based on 5 costs; merchandise purchase, salary, operational and assets depreciation.

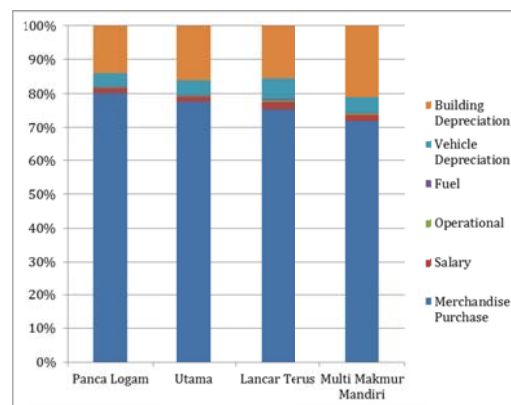


Figure 3. Cost Structure Comparison

Figure 4, 5 and 6 elaborate each competitor's position based on their product variety and cost structure:

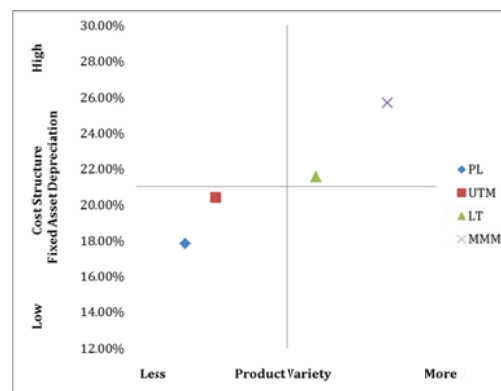


Figure 4. Fixed Asset Dep. – Product Var.

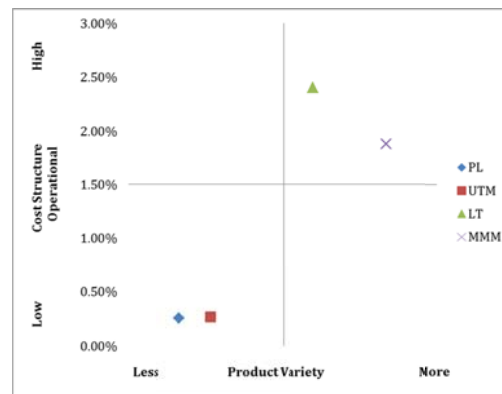


Figure 5. Operational Cost – Product Var.

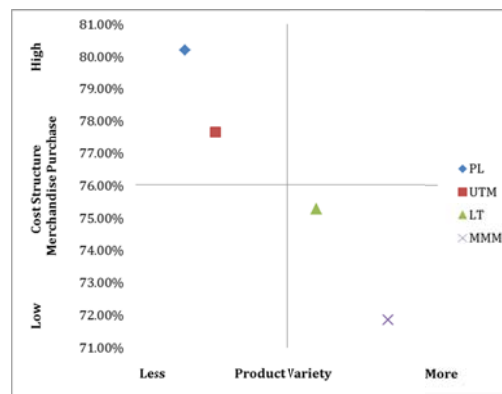


Figure 6. Merchandise Purchase – Product Var.

Cost structure implies pricing strategy. High fixed asset depreciation implies high price and vice versa. High operational cost implies high price and vice versa. High merchandise purchase however, implies low price and vice versa. Therefore the figures show similar conclusion: Panca Logam and Utama's positioning strategy is low price low product variety meanwhile Multi Makmur Mandiri and Lancrat Terus's positioning strategy is high price high product variety.

2. Internal Analysis

Strategic analysis covers performance analysis and examination of the key determinants of strategy such as strengths, weaknesses and strategic problems.

i. Performance Analysis

Performance analysis is done via two methods, financial performance and business portfolio analysis. Return on assets (ROA) is a commonly used measure of profitability. To calculate ROA, sales and profit margin is required.

Multi Makmur mandiri's 2012 sale is 35.7 billion with average profit margin of 3 percent. Therefore the profit is 1.071 billion. Next is total asset which Multi Makmur Mandiri has 26.55 billion. Therefore Multi Makmur Mandiri's ROA is $1.071/26.55 = 0.040$.

Business portfolio analysis provides a structure way to evaluate business units on two key dimensions: the attractiveness of the market involved and the strength if the firm's position in that market. The result is a graphical portrayal of the various business units on these key dimensions, courtesy of General Electric planners and consulting firm of McKinsey & Company.

| | | Market Attractiveness | | | |
|----------------------------------|--------|-----------------------|--------|-----|--|
| | | High | Medium | Low | |
| Business Position Strength | High | 1 | 1 | 2 | 1: Invest / Grow 2: Selective Investment 3: Harvest / Divest |
| | Medium | 1 | 2 | 3 | |
| | Low | 2 | 3 | 3 | |

Figure 5. Market Attractiveness - Business Position Strength Matrix

Multi Makmur Mandiri possesses assets and competency required to compete in the business field of construction material trading such as warehouse and delivery vehicle. However Multi Makmur Mandiri suffers from lack of effective management and planning function. Availability of main assets and competencies accompanied with lack of management function means Multi Makmur Mandiri's business position strength as **Medium**.

Construction material trading can be categorized as commodity product which means it has generally low profit margin. Construction material products nature also requires certain amount of assets to operate properly such as warehouse and delivery service. On the other side, material construction trading is one of the more stable business fields with little foreseeable substitution products available in the near future. Construction material trading's stability is offset by relatively high cost of capital would make its market attractiveness positioned as **Medium**.

Based on Market Attractiveness-Business Position Strength matrix above, investment strategy suitable for Multi Makmur Mandiri would be **selective investment**.

ii. Determinants of Strategic Options

Internal analysis also reviews characteristics of the business that will influence strategic options. The internal of organization of a company, which is comprised of structure, systems, people and culture, can be an important source of both strengths and weaknesses. Multi Makmur Mandiri has flat organization structure commonly found on small and medium companies. True to its flat structure, MMM has no middle management function therefore top management deal with functional activities, employee and customers directly.

Organization systems within a company can be divided into four function which is accounting and budgeting, information, measurement and reward lastly planning. Among these systems, Multi Makmur Mandiri has only information system and small degree of measurement and reward system implemented. As with the lack of organizational systems, Multi Makmur Mandiri also lacks the people or even human resource capability to adequately use as asset and competency. This in turn became one glaring weakness for Multi Makmur Mandiri.

C. Strategic Analysis Output

The following table summarizes each competitor's profile:

Table 4. Competitor Profile

| | Strategy | Strength | Weakness |
|-----|---|--|---|
| PL | Heavily focused on B2B. Expand its business to construction contractor. | Economies of scale. Efficient distribution system. | Low product variety. Low profit margin. |
| UTM | Focused on B2B. Expand its market segment toward B2C segment recently. | Economies of scale. | Low profit margin. |
| LT | Longest lasting competitor primarily focused on B2C. | Deep financial resource. | Weak B2B presence. |
| MMM | Focused on B2C by offering high product variety. | High product variety. | Weak B2B presence. |

*note: PL = Panca Logam, UTM = Utama, LT = Lancar Terus, MMM = Multi Makmur Mandiri.

Competitors' strategic movement shows shift from B2B market segment which is shown by Panca Logam's expansion, Utama's extension and Lancar Terus' complete shift. This either shows opportunities within B2B segment or potential problem within said segment.

Utama and Lancar Terus' change in market segment also shows threat within B2C market segment. Based on internal analysis, Multi Makmur Mandiri's strength can be summarized as:

- Availability of warehouse and delivery vehicle

And Multi Makmur Mandiri's weakness can be summarized as:

- Lack of organization management

3. Business Solution

The purpose of external analysis and internal analysis is twofold: to help generate strategic alternatives and to provide criteria for selecting among them.

A. Strategic Alternatives Identification

Strategic market management has four interrelated elements. The first is to determine areas in which to invest or disinvest. The second is the value proposition offered to customers. The third is the development of assets and competencies to provide the bases of competitive advantage. The fourth is the specification and implementation of functional area strategies and programs. The following figure summarizes the process of structuring strategic decisions:



Figure 6. Structuring Business Strategy

Following table shows strategic alternatives identified for Multi Makmur Mandiri based on previous analysis:

Table 5. Strategic Alternatives

| No. | Category | Short description |
|-----|----------------------|--------------------------------------|
| 1 | Product-market scope | Wood or its alternative procurement |
| 2 | | Sand or its alternative procurement |
| 3 | | Brick or its alternative procurement |
| 4 | Vertical integration | Delivery business unit |
| 5 | Growth direction | Customer loyalty program |
| 6 | | Geographic expansion |
| 7 | | Segment expansion |
| 8 | Value proposition | Based on product line breadth |
| 9 | Asset and competency | Inventory management system |
| 10 | | Credit / payment option management |
| 11 | Functional | Organization structure building |
| 12 | | Integrated information system |

B. Strategy Selection

A company can't possibly have advantage within all fields nor create unlimited amount of assets and competencies. From this perspective, this section shall categorize strategic alternatives identified and apply selection process to define their feasibility. Selection process requires input in the form of strategic alternatives and selection criteria. Selection criteria are shown in the following table:

Table 6. Selection Criteria

| Criteria description | Favorability |
|--------------------------------------|---|
| Availability of asset and competency | 3, if readily available. 2, if readily available with specific requirement. 1, not readily available. |
| Market segment target | 3, if targets B2C market segment. 2, if doesn't target specific market segment 1, if targets B2B market segment. |
| Flexibility / synergy | 3, if aligns with Multi Makmur Mandiri's strength. 2, if no significant synergy or flexibility. 1, if not align with Multi Makmur Mandiri's strength. |
| Investment requirement | 3, if requires less than 50 million 2, if requires between 50 and 400 million. 1, if requires at least 400 million. |

Based on its favorability, a strategy is considered not favorable if its favorability rating less than 9, slightly favorable is its favorability rating less than 10, favorable if the favorability less than 11 and very favorable if the favorability is more or equal to 11.

Table below summarizes feasibility of strategic alternatives:

Table 7. Selected Strategic Alternatives

| No. | Description | Fav. | Verdict |
|-----|--|-----------|-----------------------|
| 1 | Wood or its alternative procurement | 7 | Not favorable |
| 2 | Sand or its alternative procurement | 9 | Slightly favorable |
| 3 | Brick or its alternative procurement | 9 | Slightly favorable |
| 4 | Delivery business unit | 7 | Not favorable |
| 5 | Customer loyalty program | 10 | Favorable |
| 6 | Geographic expansion | 6 | Not favorable |
| 7 | Market segment expansion | 6 | Not favorable |
| 8 | Value proposition based on product line breadth | 11 | Very favorable |
| 9 | Inventory management system | 10 | Favorable |

| | | | |
|----|------------------------------------|----|--------------------|
| 10 | Credit / payment option management | 9 | Slightly favorable |
| 11 | Organization structure building | 10 | Favorable |
| 12 | Integrated information system | 10 | Favorable |

According to the Market Attractiveness-Business Position Strength matrix, Multi Makmur Mandiri should implement selective investment strategy thus it's imperative for proposed strategy to be essential. With these factor considered, proposed strategy for Multi Makmur Mandiri should be strategy with at least favorability level of 10 which is strategy 5, 8, 9, 11 and 12.

Strategy 5, 9 and 12 preferably integrated together into one single integrated information system. Therefore strategy proposed for Multi Makmur Mandiri would be:

- Value proposition based on product line breadth.
- Organization structure building.
- Implementation of integrated information system.

4. Conclusion and Recommendation

Value proposition for Multi Makmur Mandiri should strengthen Multi Makmur Mandiri's strength which is high product variety. Therefore the proposed value proposition for Multi Makmur Mandiri would be:

"Multi Makmur Mandiri menyediakan solusi kebutuhan bangunan dan rumah Anda dengan variasi produk yang lebih beragam."

Proposed organization structure for Multi Makmur Mandiri therefore is functional structure with basic functional specialisms consisting of Operation, Marketing, Finance and Personnel. Functional structure is suitable considering its simplicity and Multi Makmur Mandiri's previous lack of past organization management experience. Integrated information system for Multi Makmur Mandiri should consist of four functions: Inventory Management System (Operation), Accounting and Budgeting System (Finance), Measurement and Reward System (Personnel), and Planning System (Marketing) in accordance with proposed organization structure. This system is preferably integrated to improve the flow of information.

Reference

- Aaker, D.A. 2009. *Strategic Market Management 9th Edition*. Hoboken: John Wiley & Sons.
- Hellstern, M. 2006. *Global Building Materials Industry*. Moody's Investors Service.
- Henry, A.E.2011. *Understanding Strategic Management 2nd Edition*. New York: Oxford University Press.
- Kotler, P., Keller, K.L. 2009. *Manajemen Pemasaran, Edisi Ketiga Belas*. Jakarta: Erlangga.
- Mackenzie, B., Lombard, A., Coetsee, D., Njikizana, T., Chamboko, R., Selbst, E. 2012. *IFRS® for SMEs untuk Usaha Kecil Menengah atau Entitas Tanpa Akuntabilitas Publik*. Jakarta: PT Indeks.
- McKinsey & Company. 2008. *Enduring Ideas: The GE-McKinsey nine-box matrix*. (http://www.mckinseyquarterly.com/Enduring_ideas_The_GE-McKinsey_nine-box_matrix_2198, last access 6 March 2013)
- Mitchell, R.E. _____. *Strategy Formulation*. Northridge: California State University. (www.csun.edu/~hfmgt001/formulation.doc, last access 21 February 2013).
- Rasmussen, E. 2009. *Growth Strategies in small businesses: A case study of the development of growth strategies in young, small businesses*. Aarhus: Aarhus School of Business, Aarhus University.